

ARTESIA CHRISTIAN HOME

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

SEPTEMBER 30, 2023 AND 2022

ARTESIA CHRISTIAN HOME

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Independent Auditor's Report

Board of Directors
Artesia Christian Home
Artesia, California

Opinion

We have audited the accompanying financial statements of Artesia Christian Home (a non-profit organization), which comprise the statements of financial position as of September 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Artesia Christian Home as of September 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Artesia Christian Home and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Artesia Christian Home's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Artesia Christian Home's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Artesia Christian Home's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Ontario, California
January 29, 2024

Genske, Mulder & Co., LLP

GENSKE, MULDER & CO., LLP
Certified Public Accountants

ARTESIA CHRISTIAN HOME
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2023 AND 2022

ASSETS

	<u>2023</u>	<u>2022</u>
CURRENT ASSETS:		
Cash, cash equivalents and restricted cash	\$ 854,738	\$ 1,750,645
Investments	1,657,474	1,534,061
Accounts receivable	708,279	501,424
Prepaid expenses	<u>234,454</u>	<u>209,630</u>
Total current assets	3,454,945	3,995,760
 PROPERTY & EQUIPMENT, NET	 <u>10,280,670</u>	 <u>10,480,063</u>
 Total assets	 \$ <u><u>13,735,615</u></u>	 \$ <u><u>14,475,823</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	\$ 150,847	\$ 167,419
Accrued salaries and benefits	413,596	327,365
Pension payable	53,469	34,172
Unearned revenue	<u>48,765</u>	<u>108,737</u>
Total current liabilities	666,677	637,693
 NET ASSETS:		
Net assets without donor restrictions	<u>13,068,938</u>	<u>13,838,130</u>
 Total liabilities and net assets	 \$ <u><u>13,735,615</u></u>	 \$ <u><u>14,475,823</u></u>

See accompanying notes to financial statements and independent auditor's report.

ARTESIA CHRISTIAN HOME

**STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

	2023	2022
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Revenues and other support:		
Skilled nursing fees	\$ 5,798,238	\$ 5,335,374
Residential fees	3,420,251	3,074,250
Memory care	2,341,895	2,175,084
Cottage rent	426,040	413,393
Ancillary income	448,868	371,322
Contributions of cash	162,159	428,870
Grant revenue	-	9,698
Donated goods revenue	47,392	117,741
Donated services revenue	38,589	8,230
Other revenue	168,865	136,949
Total revenues and other support	<u>12,852,297</u>	<u>12,070,911</u>
Net assets released from restrictions:		
Satisfaction of program restrictions	<u>221,069</u>	<u>227,207</u>
 Total revenues and other support without donor restrictions	<u>13,073,366</u>	<u>12,298,118</u>
Expenses:		
Program services:		
Skilled nursing services	7,017,274	6,112,899
Residential	2,882,689	2,945,308
Memory care	2,264,688	2,069,301
Cottage	162,988	166,762
Ancillary	347,850	367,180
Total program cost	<u>12,675,489</u>	<u>11,661,450</u>
Supporting services:		
General and administrative	<u>1,267,363</u>	<u>1,257,855</u>
Total functional expenses	<u>13,942,852</u>	<u>12,919,305</u>
 OPERATING LOSS	(869,486)	(621,187)
 OTHER INCOME (EXPENSE):		
Investment return, net of investment expenses	113,978	(373,663)
Loss on disposal of equipment	(1,530)	(48,075)
Other expense	(12,154)	(4,090)
Total other income (expense)	<u>100,294</u>	<u>(425,828)</u>
 Decrease in net assets without donor restrictions	(769,192)	(1,047,015)
 CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions, restricted	221,069	227,207
Net assets released from restrictions	<u>(221,069)</u>	<u>(227,207)</u>
 Change in net assets with donor restrictions	<u>-</u>	<u>-</u>
 DECREASE IN TOTAL NET ASSETS	(769,192)	(1,047,015)
 NET ASSETS, BEGINNING OF YEAR	<u>13,838,130</u>	<u>14,885,145</u>
 NET ASSETS, END OF YEAR	\$ <u>13,068,938</u>	\$ <u>13,838,130</u>

See accompanying notes to financial statements and independent auditor's report.

ARTESIA CHRISTIAN HOME

STATEMENTS OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Program Services					Supporting Services	
	SKILLED NURSING	ASSISTED LIVING	MEMORY CARE	INDEPENDENT LIVING (COTTAGES)	ANCILLARY	TOTAL PROGRAM SERVICES	TOTAL EXPENSES
FUNCTIONAL EXPENSES:							
Compensation and related expenses:							
Compensation	\$ 4,120,916	\$ 1,401,100	\$ 1,231,003	\$ 28,597	\$ -	\$ 6,781,616	\$ 7,846,077
Payroll taxes and employee benefits	699,229	253,357	231,469	5,409	-	1,189,464	1,378,018
Workers compensation	225,181	109,724	94,559	2,656	-	432,120	446,468
Total	<u>5,045,326</u>	<u>1,764,181</u>	<u>1,557,031</u>	<u>36,662</u>	<u>-</u>	<u>8,403,200</u>	<u>9,670,563</u>
Other program expenses:							
General and administrative	604,913	173,555	119,875	24,024	-	922,367	922,367
Ancillary expenses and services	-	-	-	-	347,850	347,850	347,850
Bad debt expense	26,589	-	-	-	-	26,589	26,589
Depreciation and amortization	146,894	157,228	185,907	26,015	-	516,044	516,044
Dietary services	466,879	330,209	189,924	23,368	-	1,010,380	1,010,380
Housekeeping services	36,267	25,690	12,568	-	-	74,525	74,525
Insurance and taxes	34,261	41,010	17,385	14,759	-	107,415	107,415
Laundry and linen	40,856	6,996	-	-	-	47,852	47,852
Nursing and residential	313,298	145,052	52,257	5,323	-	515,930	515,930
Plant operations and management	267,381	222,051	123,158	32,254	-	644,844	644,844
Social service and activities	34,610	16,717	6,583	583	-	58,493	58,493
Total	<u>1,971,948</u>	<u>1,118,508</u>	<u>707,657</u>	<u>126,326</u>	<u>347,850</u>	<u>4,272,289</u>	<u>4,272,289</u>
Total functional expenses	\$ 7,017,274	\$ 2,882,689	\$ 2,264,688	\$ 162,988	\$ 347,850	\$ 12,675,489	\$ 13,942,852

See accompanying notes to financial statements and independent auditor's report.

ARTESIA CHRISTIAN HOME

STATEMENTS OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED SEPTEMBER 30, 2022

FUNCTIONAL EXPENSES:

Compensation and related expenses:

Compensation	
Payroll taxes and employee benefits	
Workers compensation	
Total	

	SKILLED NURSING	ASSISTED LIVING	MEMORY CARE	INDEPENDENT LIVING (COTTAGES)	ANCILLARY	TOTAL PROGRAM SERVICES	Supporting Services	TOTAL EXPENSES
\$	3,663,153	\$ 1,474,284	\$ 1,152,881	\$ 34,001	\$ -	\$ 6,324,319	\$ 1,052,763	\$ 7,377,082
	627,896	246,127	207,663	5,571	-	1,087,257	180,992	1,268,249
	204,256	65,460	48,867	1,871	-	320,454	24,100	344,554
	4,495,305	1,785,871	1,409,411	41,443	-	7,732,030	1,257,855	8,989,885

Other program expenses:

General and administrative	
Ancillary expenses and services	
Bad debt expense	
Depreciation and amortization	
Dietary services	
Housekeeping services	
Insurance and taxes	
Laundry and linen	
Nursing and residential	
Plant operations and management	
Social service and activities	
Total	

507,179	154,997	114,060	18,773	-	795,009	-	795,009
-	-	-	-	367,180	367,180	-	367,180
12,602	-	-	-	-	12,602	-	12,602
138,589	169,196	175,622	21,389	-	504,796	-	504,796
381,440	417,545	184,748	20,704	-	1,004,437	-	1,004,437
28,613	19,392	7,044	-	-	55,049	-	55,049
36,958	50,399	20,897	14,660	-	122,914	-	122,914
17,852	4,691	-	-	-	22,543	-	22,543
257,701	108,054	56,464	1,614	-	423,833	-	423,833
212,897	217,718	93,648	48,039	-	572,302	-	572,302
23,763	17,445	7,407	140	-	48,755	-	48,755
1,617,594	1,159,437	659,890	125,319	367,180	3,929,420	-	3,929,420

Total functional expenses

\$	6,112,899	\$ 2,945,308	\$ 2,069,301	\$ 166,762	\$ 367,180	\$ 11,661,450	\$ 1,257,855	\$ 12,919,305
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See accompanying notes to financial statements and independent auditor's report.

ARTESIA CHRISTIAN HOME

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from residents, programs and insurance	\$ 12,168,465	\$ 11,383,647
Cash received from donors	412,382	664,307
Cash received from quality bonus and other	168,865	136,949
Cash received from government grants	-	9,698
Cash received in interest and dividends	-	1,879
Cash paid to employees and suppliers	<u>(13,327,438)</u>	<u>(12,659,259)</u>
Net cash used in operating activities	(577,726)	(462,779)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property improvements and equipment	(312,515)	(286,026)
Net additions to construction in process	<u>(5,666)</u>	<u>(15,170)</u>
Net cash used in investing activities	<u>(318,181)</u>	<u>(301,196)</u>
Decrease in cash, cash equivalents and restricted cash	(895,907)	(763,975)
Cash, cash equivalents and restricted cash beginning	<u>1,750,645</u>	<u>2,514,620</u>
Cash, cash equivalents and restricted cash ending	\$ <u><u>854,738</u></u>	\$ <u><u>1,750,645</u></u>
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Donated goods	\$ <u><u>47,392</u></u>	\$ <u><u>117,741</u></u>
Donated investments	\$ <u><u>9,435</u></u>	\$ <u><u>-</u></u>

See accompanying notes to financial statements and independent auditor's report.

ARTESIA CHRISTIAN HOME

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (769,192)	\$ (1,047,015)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Unrealized (gains) losses on investments	(70,848)	431,989
Realized (gains) losses on sales of investments	(12,808)	112,905
Reinvested interest and dividends	(41,522)	(181,811)
Professional fees paid out of investment balance	11,200	12,459
Loss on disposal of assets	1,530	48,075
Donated investments	(9,435)	-
In-kind contributions - goods	(47,392)	(117,741)
Distribution of in-kind good contributions	47,392	55,281
In-kind contributions - services	(38,589)	(8,230)
Distribution of in-kind service contributions	38,589	8,230
Depreciation expense	516,044	504,796
Changes in operating assets and liabilities:		
Accounts receivable	(206,855)	62,320
Prepaid expenses	(24,824)	(74,215)
Accounts payable	(16,572)	19,387
Accrued salaries and benefits	86,231	(236,683)
Pension payable	19,297	(8,520)
Unearned revenue	<u>(59,972)</u>	<u>(44,006)</u>
Net cash used in operating activities	\$ <u><u>(577,726)</u></u>	\$ <u><u>(462,779)</u></u>

See accompanying notes to financial statements and independent auditor's report.

ARTESIA CHRISTIAN HOME

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2023 AND 2022

1. Nature of activities

Artesia Christian Home (the “Organization”) is a non-profit organization operating in Los Angeles County, California, which provides skilled nursing care, assisted living including independent cottage and apartment care, and a memory care facility. The Organization has been granted provision by the State of California to operate as a continuing care retirement community. This allows the organization to enter into continuing care contracts, which provide varying levels of care based on need. Residents under continuing care contracts as of September 30, 2023 and 2022 were 32 and 29, respectively.

2. Summary of significant accounting policies

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Financial statement presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. In addition, the Organization is also required to present a statement of cash flows.

Classification of net assets

Net assets of the Organization are classified based on the presence or absence of donor-imposed restrictions. Net assets are comprised of two groups as follows:

Net Assets Without Donor Restrictions – Amounts that are not subject to usage restrictions based on donor-imposed requirements. This class also includes assets previously restricted where restrictions have expired or been met.

Net Assets With Donor Restrictions – Assets subject to usage limitations based on donor-imposed restrictions. These restrictions may be temporary or may be based on a particular use. Restrictions may be met by the passage of time or by actions of the Organization. Certain restrictions may need to be maintained in perpetuity.

Earnings related to restricted net assets will be included in net assets without donor restrictions, unless otherwise specifically required to be included in net assets with donor restrictions by the donor or state law. The Organization does not interpret the guidance in the standard to include amounts restricted by Medicare, MediCal, or federal government subsidies as net assets with donor restrictions. The Organization believes that these amounts do not meet the spirit of the standard for such a classification, nor is there any industry standard indicating that others will treat these assets as net assets with donor restrictions.

Reclassifications

Reclassification of prior year information was made to conform to current year presentation.

ARTESIA CHRISTIAN HOME

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2023 AND 2022

2. Summary of significant accounting policies (continued)

Revenue recognition

The Organization has assessed the predominant component of monthly lease payments for skilled nursing, assisted living, independent living, and memory care to be for the monthly rent of the apartment, as other services and ancillary revenue are reported separately. The Organization therefore recognizes monthly rent as lease income under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 840, *Leases*. The Organization further determined that other services and ancillary revenue are health care services and other services provided to residents that do not relate to the unit apartment rent. Therefore, such service revenues are not part of the calculation of lease payments, and revenue under these service lines is recognized under FASB ASC 606, *Revenue from Contracts with Customers*.

Skilled nursing, assisted living, independent living, and memory care fees (together, “net health services revenues”) are reported at the amount that reflects the consideration the Organization expects to receive in exchange for the personal care services provided. Performance obligations are determined based on the nature of the services provided. Revenues are recognized as performance obligations are satisfied.

Net health services revenues are primarily comprised of the following revenue streams:

Skilled Nursing – Skilled nursing revenues are primarily derived from providing personal care services to residents at a stated daily fees with the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation, which is satisfied over time as services are provided. Therefore, skilled nursing revenues are recognized on a daily basis.

Assisted Living – Assisted living revenues are primarily derived from providing personal care services to residents at a stated monthly fee with the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation, which is satisfied over time as services are provided. Therefore, assisted living revenues are recognized on a month-to-month basis.

Memory Care – Memory care revenues are primarily derived from providing personal care services to residents at a stated monthly fee with the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation, which is satisfied over time as services are provided. Therefore, memory care revenues are recognized on a month-to-month basis.

Independent Living (Cottages) – Independent living revenues are primarily derived from providing personal care services to residents at a stated monthly fee with the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation, which is satisfied over time as services are provided. Therefore, independent living revenues are recognized on a month-to-month basis.

Ancillary – Ancillary revenues are primarily derived from providing medication, physical, occupational, and speech therapy, x-ray and imaging, and medical supplies to skilled nursing residents. Ancillary revenue for net health services is recognized as services are rendered.

ARTESIA CHRISTIAN HOME

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2023 AND 2022

2. Summary of significant accounting policies (continued)

Revenue recognition (continued)

Payment terms and conditions for the Organization's resident contracts vary by contract type, although terms generally include payment to be made within 30 days. Monthly rental fees and net health services revenue for assisted living, independent living, and memory care are billed to residents monthly in advance and are amortized ratably during the month. Net health services for skilled nursing and ancillary are billed in arrears. The Organization has agreements with the residents at established monthly rates. The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Net health services revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments due to audits, review or investigations are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such estimated amounts are revised in future periods, as adjustments become known. Payment arrangements include prospectively determined rates per day, reimbursed costs, and discounted charges, and per diem payments. Laws and regulations governing the Medicare and MediCal programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates could change in the near term.

Cash and cash equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents limited for long-term purposes by donor imposed restrictions are presented as restricted cash. The Organization, at times, in the ordinary course of business, maintains cash balances at financial institutions in excess of federally insured amounts. No losses are anticipated thereon.

Restricted cash

There is no restricted cash from grants and net assets with donor restrictions as of September 30, 2023 and 2022. The Organization does maintain a restricted cash account representing deposits from family members on behalf of residents for payment of future bills. The balance of this resident trust fund account was \$2,199 and \$3,971 as of September 30, 2023 and 2022, respectively.

Accounts receivable

The Organization reviews its accounts receivable periodically for collectability and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of past due accounts including historical collection information and existing economic conditions. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. There was no valuation allowance assessed by the Organization for each of the years ended September 30, 2023 and 2022.

Prepaid expenses

Prepaid expenses are expenses that are paid in advance for goods or services that will be received in the future. Prepaid expenses are mostly comprised of vendor deposits, workers' compensation, and insurance.

ARTESIA CHRISTIAN HOME

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2023 AND 2022

2. Summary of significant accounting policies (continued)

Property and equipment

Purchased property and equipment consist of land and improvements, buildings, equipment and furniture, and vehicles. Acquisitions of property and equipment in excess of \$2,500 are capitalized. Donations of property and equipment are recorded as support through the statement of activities at their estimated fair value. Such donations are reported as contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expiration of donor restrictions when the donated or acquired assets are placed into service. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Depreciation is computed on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	20-40 years
Equipment and furniture	5-20 years
Vehicles	7 years

Construction in progress

As of the year ended September 30, 2023, the Organization was in the process of updating the interior of a cottage residence and a technology project. As of September 30, 2023, the Organization incurred and capitalized \$20,836 in construction in progress related to these two projects. The interior updates of the cottage residence were completed and placed in service in October 2023 for a total cost of \$20,068. The technology project was completed and placed into service in December 2023 for a total cost of \$6,694. No interest was capitalized to the projects during the year ended September 30, 2023.

As of the year ended September 30, 2022, the Organization was in the process of updating the interior of a cottage residence and replacing the flooring in the areas used for skilled nursing. As of September 30, 2022, the Organization incurred and capitalized \$15,170 in construction in progress related to these two projects. The cottage residence project was completed and placed into service in October 2022 for a total cost of \$12,059. The skilled nursing flooring project was completed and placed into service in June 2023 for a total cost of \$13,239. No interest was capitalized to the projects during the year ended September 30, 2022.

Investments

Investments are reported at fair value in the statements of financial position and are based on quoted market prices. Net appreciation and depreciation on investments, included realized gains or losses and unrealized appreciation or depreciation on those investments, as well as all dividends, interest, and other investment income, net of investment expenses, is reported in the statement of activities. Investment income, net of investment expenses is reported as an increase or decrease to net assets without donor restrictions.

Unearned revenue

The Organization recognizes a liability when it receives money in advance of providing goods or services. The Organization's unearned revenue the following for the years ended September 30:

	2023	2022
Resident prepayments	\$ 46,566	\$ 104,766
Resident deposits	2,199	3,971
Total unearned revenue	\$ <u>48,765</u>	\$ <u>108,737</u>

ARTESIA CHRISTIAN HOME

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2023 AND 2022

2. Summary of significant accounting policies (continued)

Fair value of financial instruments

The Organization's financial instruments consist principally of cash and cash equivalents, accounts receivable, short term accounts payable and investments in mutual funds and exchange traded funds. The recorded values of these financial instruments approximates their fair values. Investments are recorded at fair value (see Note 7).

Income taxes

The Organization is an exempt from taxation under Internal Revenue Code Section 501(c)(3) and the comparable California Revenue and Taxation Code Section 23701(d). The Organization has been classified by the Internal Revenue Service as other than a private foundation.

Net patient service revenue

Patient service revenues from patients and third-party payers are reported at the estimated net realizable amounts, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered, and are adjusted in future periods as final settlements are determined. Subsequent changes that are determined to be the result of an adverse change in the resident's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended September 30, 2023, and 2022 was not significant.

Contributions of cash

Contributions of cash are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence or nature of any donor transactions. Net assets with donor restrictions include those resources subject to donor-imposed restrictions. Net assets without donor restrictions include resources that are not restricted by donor-imposed restrictions and are available for operations of the Organization, without limitation, unless designated by the board of directors.

Contributed goods and services

Contributions of goods and services that are measurable are valued at their estimated fair market value and are recorded in the statement of activities when received. The contributions are recorded as unrestricted support unless specific donor stipulations specify how the donated asset must be used. The related donated services are expensed in the functional expenses based on the types of professional services rendered.

Charity care

The Organization provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Records are maintained to identify and monitor the level of charity care provided. These records include the amount of charges forgone for services and supplies furnished under its charity care policy and the estimated cost of these services and supplies. The value of charity care provided to patients for the years ended September 30, 2023 and 2022 was \$804,342 and \$448,609, respectively.

Continuing care contracts

The Organization has entered into continuing care contracts with the residents of its facilities. Under the provision of these contracts, residents are required to pay an entrance fee and periodic monthly fees (resident fees) for services and the use of facilities. The resident fees are subject to adjustment for changes in operating costs or other economic reasons.

ARTESIA CHRISTIAN HOME

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2023 AND 2022

2. Summary of significant accounting policies (continued)

Functional allocation of expenses

Expenses are allocated on a functional basis among the various programs and support services benefited. Expenses that can be identified with a specific program or support service are charged directly to that program or service. Expenses that are common to several programs or services are allocated based on methods relevant to the function. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Allocated expenses are calculated on a percentage of total revenue basis or on estimates of time and resources, depending on the type of expense.

Use of estimates

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America requires the Organization to make certain estimates and assumptions that directly affect the results of reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Recent Accounting Update

In February 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-02, *Leases* (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, which allows certain entities the option to delay adoption of ASU 2016-02 to fiscal years beginning after December 15, 2021, which is the fiscal year ending September 30, 2023, for the Organization. The Organization adopted ASU 2016-02 during the year ended September 30, 2023, and was applied retrospectively. The adoption did not have a material impact on the financial statements.

3. Accounts receivable

Accounts receivable consists of the following as of September 30:

	2023	2022
Medicare	\$ 7,951	\$ 31,597
Medi-Cal	479,597	277,067
Private pay	159,684	137,703
Commercial insurance	61,047	55,057
Total accounts receivable	<u>\$ 708,279</u>	<u>\$ 501,424</u>

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NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2023 AND 2022

4. Property and equipment

Property and equipment consists of the following as of September 30:

	<u>2023</u>	<u>2022</u>
Land and improvements	\$ 1,216,889	\$ 1,216,889
Buildings and improvements	14,247,711	14,021,082
Equipment and furniture	2,613,429	2,598,401
Vehicles	255,371	255,371
Construction in progress	20,836	15,170
	<u>18,354,236</u>	<u>18,106,913</u>
Less accumulated depreciation	<u>8,073,566</u>	<u>7,626,850</u>
Property and equipment, net	<u>\$ 10,280,670</u>	<u>\$ 10,480,063</u>

5. Investments and investment return

Investments consist of the following with total investments reflected in the statement of financial position as of September 30:

	<u>2023</u>	<u>2022</u>
Cash equivalents	\$ 41,780	\$ 475,585
Fixed income	100,000	-
Equities	12,630	-
Exchange-traded funds	480,197	239,694
Mutual funds	<u>1,022,867</u>	<u>818,782</u>
Total investments	<u>\$ 1,657,474</u>	<u>\$ 1,534,061</u>

Total investment return, net of investment expenses for the years ended September 30, is comprised of the following:

	<u>2023</u>	<u>2022</u>
Interest and dividend income	\$ 41,522	\$ 183,690
Realized gains (losses)	<u>12,808</u>	<u>(112,905)</u>
Total returns	54,330	70,785
Less investment expenses	<u>(11,200)</u>	<u>(12,459)</u>
Net realized returns	43,130	58,326
Unrealized gains (losses)	<u>70,848</u>	<u>(431,989)</u>
Investment return, net of investment expenses	<u>\$ 113,978</u>	<u>\$ (373,663)</u>

ARTESIA CHRISTIAN HOME

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2023 AND 2022

6. Liquidity and availability of funds

The Organization's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	2023		2022
Cash and cash equivalents	\$ 854,738	\$	1,750,645
Accounts and interest receivable	708,279		501,424
Investments	1,657,474		1,534,061
Total liquid financial assets	\$ 3,220,491	\$	3,786,130

None of the financial assets are subject to donor or other contractual restrictions. Accordingly, all such funds are available to meet the cash needs of the Organization in the next 12 months.

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, the Organization can withdraw investment funds held or spend from available donation dollars.

7. Fair value of financial instruments

FASB Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC Topic 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities. Examples of assets and liabilities utilizing Level 1 inputs are equities, exchange-traded funds (ETFs) and mutual funds.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Examples of assets and liabilities utilizing Level 2 inputs include certificates of deposit, corporate bonds, and United States (U.S.) government-sponsored agency bonds.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The fair value standard requires the assets and liabilities carried at fair value be classified and disclosed in one of the three levels. The Organization's investments are reported as Level 1 and Level 2 inputs within the fair value hierarchy, consisting of fixed income, equities, ETFs, and mutual funds. The Organization does not hold securities classified as Level 3.

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy:

ARTESIA CHRISTIAN HOME

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2023 AND 2022

7. Fair value of financial instruments (continued)

Fixed income — The Level 2 investment is a certificate of deposit fixed income investment. In determining the fair value of the investments categorized as Level 2, a report from a nationally recognized broker-dealer detailing the fair value of each certificate of deposit investment held as of each reporting date was obtained. The broker-dealers use prices obtained from nationally recognized pricing services to value the fixed income securities.

Equities, EFTs, and mutual funds — Investments are valued based on quoted market prices and are typically classified within Level 1. Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with identical characteristics or discounted cash flows.

There have been no significant changes in the valuation techniques during the years ended September 30, 2023 and 2022.

Investments reported at fair value consist of the following as of September 30:

	2023		
	Level 1	Level 2	Total
	Fair Value	Fair Value	
Cash equivalents	\$ 41,780	\$ -	\$ 41,780
Fixed income	-	100,000	100,000
Equities	-	12,630	12,630
Exchange-traded funds	480,197	-	480,197
Mutual funds	1,022,867	-	1,022,867
Total investments	\$ 1,544,844	\$ 112,630	\$ 1,657,474

	2022		
	Level 1	Level 2	Total
	Fair Value	Fair Value	
Cash equivalents	\$ 475,585	\$ -	\$ 475,585
Fixed income	-	-	-
Equities	-	-	-
Exchange-traded funds	239,694	-	239,694
Mutual funds	818,782	-	818,782
Total investments	\$ 1,534,061	\$ -	\$ 1,534,061

8. Employee benefit plan

The Organization offers a tax deferred annuity program under Internal Revenue Code Section 403(b) covering full-time employees. The voluntary program allows participants to contribute a percentage of salary to be placed in the individual's specific account. The Organization matches employee contributions up to 3% of the participant's wages. The Organization assesses an additional discretionary contribution of 3% annually. For the years ended September 30, 2023 and 2022, the Organization contributed \$351,794 and \$321,575, respectively.

ARTESIA CHRISTIAN HOME

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2023 AND 2022

9. Professional liability and workers compensation claims

Professional liability claims

The Organization purchases professional liability insurance under an occurrence-based policy. The insurance provides \$1,000,000 maximum coverage per incident, with a \$3,000,000 aggregate limit. Premium expense was \$202,924 and \$216,091 for the years ended September 30, 2023 and 2022, respectively. The Organization is also insured for excess liability up to a limit of \$3,000,000. Premium expense for the excess liability policy was \$45,884 and \$45,644 during the years ended September 30, 2023 and 2022, respectively.

Workers compensation claims

The Organization participates in GuardianComp, Inc., an alternative to traditional workers' compensation insurance for not-for-profit nursing and continuing care retirement communities in the state of California. Members of GuardianComp, Inc. make contributions based on estimated payroll figures, which fund losses and program expenses. After claims are closed and expenses are paid at the end of the program year, GuardianComp, Inc. conducts an audit by member and determines the amount of underpaid or overpaid contribution to be remitted to or paid by the participating member.

For the years ended September 30, 2023 and 2022, contributions made to GuardianComp, Inc. were \$408,433 and \$375,152, respectively. During the year ended September 30, 2023, the Organization was required to pay an additional contribution into the program of \$41,831. During the year ended September 30, 2022, the Organization received a refund of \$31,105, which is considered an overpaid contribution. The refund reduced workers' compensation expense.

10. Concentrations of risk and disaggregation of revenue

The Organization maintains cash deposits at multiple financial institutions. At times, the deposits may exceed the amount covered by the Federal Depository Insurance Corporation. Management does not anticipate any losses based on this risk.

Contractual allowances have been deducted from gross revenue to arrive at net skilled nursing and ancillary fees as set forth below for the years ended September 30:

		2023		2022
Skilled nursing and ancillary revenue	\$	6,989,822	\$	6,196,673
Contractual and other allowances		<u>(742,716)</u>		<u>(489,977)</u>
Totals	\$	<u>6,247,106</u>	\$	<u>5,706,696</u>

A substantial portion of the Organization's skilled nursing revenue and accounts receivable is from federal Medicare and state Medi-Cal programs. For the years ended September 30, 2023 and 2022, skilled nursing revenue from Medicare was \$356,064 and \$263,998, respectively. Skilled nursing Medi-Cal revenue for the years ending September 30, 2023 and 2022 was \$3,762,979 and \$3,023,103, respectively. Reimbursement is based on a standard fee schedule established by Medi-Cal for each type of service. Contracts may also have been signed with health maintenance organizations and insurance companies to provide service rates that are lower than the standard rates.

Included in accounts receivable as of September 30, 2023 and 2022 for Medicare was \$7,951 and \$31,597, respectively. Included in accounts receivable as of September 30, 2023 and 2022 for Medi-Cal was \$479,597 and \$277,067, respectively.

ARTESIA CHRISTIAN HOME

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2023 AND 2022

11. Net asset balances and releases from restrictions

Following is the percentage of skilled nursing revenue and accounts receivable that the Medicare and Medi-Cal programs represent for each of the years ending:

	<u>2023</u>	<u>2022</u>
Medicare		
Skilled nursing revenue	5.1%	4.3%
Total accounts receivable	1.1%	6.3%
Medi-Cal		
Skilled nursing revenue	53.8%	48.8%
Total accounts receivable	67.7%	55.3%

The net assets with donor restrictions released during the years ending September 30, 2023 and 2022 were utilized as follows:

	<u>2023</u>	<u>2022</u>
Purpose restrictions accomplished:		
C.A.R.E. fund expenses	\$ 114,143	\$ 144,900
Special projects	<u>106,926</u>	<u>82,307</u>
Total	<u>\$ 221,069</u>	<u>\$ 227,207</u>

The C.A.R.E. fund is utilized to provide board designated discounts on care provided to residents with financial hardships who are deemed to not have the wherewithal to pay in full.

Special projects funds represent donations received with any designation other than the C.A.R.E. fund. Typically, special project funds are designated for use by a specific department or to be used towards a specific project the Organization is involved in.

As the purpose restrictions were fully accomplished during the years, there were no net assets with donor restrictions as of each of the years ended September 30, 2023 and 2022.

12. Grant revenue

During the year ended September 30, 2022, the Organization received grant funds from the CARES Act Provider Relief Fund totaling \$9,698. This grant provides funding for financial losses and changes in operating expenses caused by the coronavirus. As of September 30, 2022, all funds received were used for specified purposes. There were no grant monies received during the year ended September 30, 2023.

ARTESIA CHRISTIAN HOME

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2023 AND 2022

13. Donated goods and services

For the years ended September 30, 2023 and 2022, \$38,589 and \$8,230, respectively is recorded within the statement of activities for donated services.

For the years ended September 30, 2023 and 2022, contributed nonfinancial assets, also referred to as donated goods, recognized within the statement of activities included the following:

	2023	2022
Furniture	\$ -	\$ 62,460
Supplies and equipment	46,392	52,868
Employee enhancement	1,000	2,413
Total donated goods	\$ 47,392	\$ 117,741

The Organization recognized donated goods within revenue, including donated furniture, supplies and equipment, and amounts for employee enhancement. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

The contributed furniture was used by residents in the Organization's onsite dining room. In valuing the furniture, the Organization estimated the fair value on the basis of values that would be paid by contacting a seller of the same chairs.

Contributed supplies and equipment were utilized by the residents and staff of the Organization. Contributed gifts and food were utilized by the Organization's employees for employee enhancement purposes. In valuing the contributed supplies, equipment, gifts and food, the Organization estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.

14. Commitments and contingencies

Dining services

The Organization has an agreement with Morrison Management Specialists, Inc. ("Morrison") for dining services for the Resident Care Facility. The contract is renewed annually, effective October through September of each fiscal year. Effective October 1, 2022, the Organization and Morrison agreed to move from per resident day rates to a monthly rate with a separate charge for resident meals. For the year ended September 30, 2023, the Organization paid Morrison a monthly rate of \$35,995, which is based on providing services for 64 resident care, 54 skilled nursing, and 28 memory care projected resident days per day. Should actual resident days for any consecutive three-month period be 10% higher or lower than the projected resident days for that same period, then the Organization and Morrison would renegotiate the monthly rate. In addition to the monthly rate, Morrison charges the Organization \$9.25 per resident day to cover the costs of food for resident meals and related supplies for the resident care, skilled nursing, and memory care residents. The charges cover up to three meals per day. On each October 1, beginning October 1, 2023, the monthly rate, and any other fixed cost charges such as the daily resident meal charge, will be increased by the 12-month percentage change in the Consumer Price Index for All Urban Consumers: Food Away from Home, U.S. City Average (Not Seasonally Adjusted) as published by the Bureau of Labor Statistics of the U.S. Department of Labor.

For the year ended September 30, 2022, the Organization operated under a contract with per resident day rates for a base resident census of 64 at a guaranteed rate of \$33.29 per resident per day. Once a resident census of 64 is exceeded, the guaranteed rate is at \$4.77 per resident per day. For the Skilled Nursing Facility, the rate guaranteed at September 30, 2022 is \$43.28 per day for 54 residents with a variable rate of \$4.77. For the Memory Care Center, the rate guaranteed at September 30, 2022 is \$22.39 per day for 28 residents with a variable rate of \$4.77. If the resident census is not met, the Organization is bound to provide Morrison with the difference in actual and projected monthly resident days at the variable rate.

ARTESIA CHRISTIAN HOME

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2023 AND 2022

14. Commitments and contingencies (continued)

Third-party payers for residents without a continuing care contract

Amounts received or receivable from third-party payers are subject to review by the third-party payers. Any disallowed claims, including amounts already collected, may constitute a liability of the Organization. The amount, if any, which may be disallowed by third-party payers is not determinable. No valuation allowance for estimated adjustments was determined necessary for the years ended September 30, 2023 and 2022.

Continuing care contracts

Laws and regulations concerning government programs, including Medicare, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Organization's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Organization.

Investments

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statement of financial position.

15. Subsequent events

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The Organization recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Organization's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are available to be issued.

Management has evaluated subsequent events through January 29, 2024, the date on which the financial statements were available to be issued.